Respondent: Rebecca Bachelder

1. Refer to Select Energy initial comments at 2-3. Please discuss any problems with the implementation of the path approach in states that use the approach to assign capacity to marketers. How do the states address these problems?

Response:

Select has not experienced any problems with the path approach in any of the state jurisdictions in which it currently operates. New York assigns paths to marketers and Rhode Island allows the marketer to prioritize which paths it would like.

Respondent: Rebecca Bachelder

2. Please explain the reasons why competitive suppliers do not serve, as a general basis the residential and small C&I segments.

Response:

Select's business strategy primarily focuses on medium and large C&I customers. At the present time, Select does not target small C&I customers, but serves some small commercial meters as a matter of serving a large aggregation pool.

Fundamentally, each marketer has defined a business strategy, which identifies and targets the customer or market segments it wishes to pursue in the competitive marketplace. There are some marketers who actively pursue small C&I customers as part of their business plan. However, Select believes that certain conditions are necessary in order for marketers to serve large numbers of small, generally low margin customers. For example, there are a number of marketers who target small C&I customers in New York, where there have been specific provisions made to facilitate serving small customers. Each LDC in NY is required to utilize electronic data interchange, "EDI", in doing business with marketers. Also, most New York LDCs provide billing services for marketers serving customers on their systems. New York only requires mandatory capacity assignment to points upstream on the pipeline system that are liquid, and only requires marketers to hold primary capacity for the five (5) winter months. These measures all improve the economics of serving small C&I customers.

Other barriers to serving small customers with low margins include the high cost of customer acquisition, customer support and the cost of customer retention. These costs must come down in order to attract and maintain these customers in a profitable manner. The New York LDCs have facilitated moving small C&I customers to the competitive market by providing customer education on the benefits of competition. Additionally, Bay State Gas Company successfully marketed its *Pioneer Valley Pilot* program in the mid-1990s. The Department may want to consider similar consumer education initiatives. In order to effectively move small customers to the competitive market, the LDC must be supportive and efficient in their operations with marketers. Challenging operational and financial burdens, as well as, the risk of marketer failure can be the result if the LDC is not supportive and accommodating of service to the small C&I customer market segment.

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3. Please discuss fully the following issues:

(a) Potential regulatory policies that the Department could implement to encourage competitive suppliers to serve the residential and small C&I segments;

(b) How the voluntary capacity assignment and the path approach could spur competition at the residential and small C&I retail markets.

Response:

Although changes to regulatory policies which may encourage suppliers to serve small customers would not affect Select's current business strategy and target market in the foreseeable future, they may encourage other market participants to enter the market and serve residential and small C&I customers. These policy recommendations would include changes identified in the previous response (IR Select-2) that have been adopted by other jurisdictions where small customer marketers have acquired significant numbers of customers.

Respondent: Rebecca Bachelder

4. Please provide a list the entry barriers in the retail Massachusetts market.

Response:

The primary barriers to entry in the Massachusetts market include:

- ?? The number of small LDCs and the lack of uniformity in business operations inherent in each of the utilities present significant administrative barriers. Although the terms and conditions of operation are standardized, business processes between LDCs are not uniform.
- ?? Mandatory capacity assignment has essentially limited the market to those who are grandfathered without capacity.
- ?? The slice approach to capacity assignment.
- ?? Tight operating tolerances of the LDCs.
- ?? General complexities of operating in the Northeast, especially Massachusetts.
- ?? The lack of EDI.

The fact that a handful of marketers continue to operate in Massachusetts despite all of these obstacles is testament to the strength of the potential market.

Respondent: Rebecca Bachelder

5. Under the competitive suppliers' experience, what should the minimum savings offered by competitive suppliers be in the commodity portion of the customers' bill in order to encourage customers to migrate to transportation service?

Response:

Minimum savings requirements are decided by individual customers and could be assessed in percentage amounts or in actual dollar amounts. Additionally, some customers simply don't buy from a competitive supplier for exclusively cost savings, but, rather, to achieve other objectives such as risk management or price certainty. Once customers have left the utility, they are looking at competing bids between marketers and are not looking at the LDC price, making price comparisons with the LDC price no longer relevant. In our experience, the reasons for switching initially are specific to the customer.

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6. Please discuss the minimum scale necessary (in terms of volume and / accounts) to maintain profitable retail operations in the gas Massachusetts market.

Response:
Minimum scale depends on so many variables that it is difficult to discuss in generic terms. Scale depends on the market targeted and also depends on the fixed cost of the infrastructure built by the marketer to serve the customers. For some marketers, a single large customer would satisfy their requirements of scale. Some target markets may be profitable whereas others may not be profitable at any scale due to numerous operating or regulatory requirements.

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7. Please provide a Table with the number of monthly contracts stranded due to their small size since 1999 to January 2004 as well as the total MDQ associated to them, and the monetary value of them.

Response:
As discussed with the Hearing Officer, Select will file its response to this IR on Friday, June 11, 2004. The delay is due to the difficulty encountered in retrieving data.

Respondent: Rebecca Bachelder

8. Please discuss and fully support your answer with respect to the reduction in the number of marketers since 1999 up to day. Is it because consumers decide to migrate back to the LDC or it is because marketers leave the system and as a result, customers have to go back to default service?

Response:

From direct experience, customers are generally satisfied with their contracts with marketers, as long as the marketer fully upholds and efficiently administers the terms and conditions of their contract. Most customers would prefer to remain in the competitive marketplace in order to fully leverage their options for price and consumer choice. Most of the migration of customers back to default service has been due to marketers leaving the system due to the barriers identified in IR Select-4 and their lack of knowledge of the New England and Massachusetts market. Customers were only returned if there was no replacement marketer to purchase the departing marketer’s customer book of business or to acquire the customer once their contract ended with the departing marketer. Most commercial and industrial customers have been sold to other marketers and have not been returned to the utility, especially customers who are capacity exempt.

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9. Refer to Bay State reply comments at 6. Please address: (a) how the path approach addresses the "non-price differentials" as discussed by Bay State, and (b) what measures can be taken to either eliminate or reduce the risk of leaving higher-cost capacity to the LDCs to serve the sales customers.

Response:

Bay State's comments refer to the difference between Canadian delivered supplies and domestic supplies. Each LDC's Canadian resources may need to be treated separately from domestic resources, as it is our understanding that Canadian pipeline rate design differs significantly from rate design policies set at FERC. There may need to be a separate path for Canadian managed supplies.

With respect to domestic paths, our proposal does not necessarily have marketers picking paths unless it makes sense to do so. As long as paths are equitable between the LDC and the marketers, Select does not object to the LDCs selecting the paths. The goal would be for LDCs to put together an average path(s). A movement to the path approach should be a revenue neutral change from the slice. It is not our intent to "game" a different method of assignment. We are simply looking for ways to ease the administrative burden, buy and flow gas more efficiently and eliminate stranded costs to provide the customer with the most competitive price.